EXHIBIT # 1
DATE 1/28/15
HB HB 213

Montana Chamber of Commerce

Issue Brief:
Lower the Business Equipment Tax

Bill Number: HB 213
Sponsor: Rep. Mike Miller

Contact: Glenn Oppel, Government Relations Director
431-3685; glenn@montanachamber.com

Background: Over the past 20 years, the Legislature has incrementally reduced the business equipment tax (BET) rate from a high of 12% back in the 1980s. The BET is a personal property tax in Class 8 of the Montana tax code (see MCA 15-6-138).

There are different ways to approach a BET, which include threshold, exemption, and a mix of both. The *threshold* approach taxes the value of all equipment if the valuation *exceeds* a specified dollar value. Prior to the changes adopted by the 2013 Legislature, the BET contained a $20,000 threshold. If, for example, a business's valuation was $15,000, that business would not have to pay the tax. However, if business's valuation exceeded the $20,000 threshold, the law required the business to pay the tax on the entire amount of the equipment valuation.

The 2013 Legislature adopted a $100,000 *exemption*. This approach taxes only the valuation that exceeds the statutory exemption. For example, if the statutory exemption is $100,000 and a business has $110,000 of valuation, the business pays the tax only on the value that exceeds the exemption, or $10,000.

Recent changes to the BET include:

- SB 48 from 2005 removed the phase-out of the BET adopted by the 1999 Legislature, froze the tax rate at 3%, and increased the threshold from $5,000 to $20,000.
- SB 372 from 2011 kept the $20,000 threshold in place but lowered the BET rate from 3% to 2% and created a $2 million threshold tax bracket. It also created a trigger that if income tax revenue increased at least 4% over the previous year, a tax rate of 1.5% would apply and the threshold tax bracket would be increased to $3 million. Furthermore, any valuation over $3 million would pay 3%. If the trigger wasn't met, the tax was 2% on the first $2 million and 3% on any value in excess of $2 million. The trigger in SB 272 was met for tax year 2012 and 2013. SB 372 included reimbursement for local entities.
- SB 96 from 2013 removed the $20,000 threshold, established a $100,000 exemption, and permanently reduced the lower tax rate to 1.5%. It also removed the trigger and the $2 million and $3 million tax brackets to establish a single, higher $6 million tax bracket. Therefore, the first $6 million is now taxed at 1.5% (minus $100,000) and any excess over $6 million is taxed at 3% (minus $100,000). SB 96 applied to the 2014 tax year and beyond. SB 96 exempted about 11,000 of 18,000 businesses formerly paying the tax. SB 96 included reimbursement for local entities.

The revenue from the BET results in more or less a 20/80 split between the state general fund and local governments and constitutes around 6.5% of general fund revenue according to the DOR's Biennial Report. The following is a breakdown of BET revenue from FY 2010-2015 provided by the Legislative Fiscal Division:

Class 8	Taxable Value	Total Taxes Paid	State Portion
FY 10	163,950,768	85,811,796	16,662,808
FY 11	173,831,686	91,794,255	17,670,512
FY 12	174,875,828	92,424,210	17,776,653
FY 13	165,977,726	88,269,452	16,876,117
FY 14	178,441,343	95,329,299	18,144,986
FY 15 (est.)	143,291,995	76,875,058	14,582,396

Problem: Despite incremental cuts to the BET, it still puts Montana at a competitive disadvantage with three of our four bordering states that do not have a BET – North Dakota, South Dakota, and Wyoming. Moreover, personal property taxes like the BET are a tax on inputs and therefore tend to discourage capital investment that helps businesses expand their operations, increase output, create more jobs, and improve the overall economy.

Chamber Solution: The Montana Chamber has been a strong advocate over the past two decades for lowering and/or eliminating the BET. While eliminating the BET is improbable this session, we support exempting as many businesses from the tax as possible. The best way to accomplish that goal is to increase the exemption. The main provisions of House Bill 213 would:

1. **Increase the exemption amount** from $100,000 to $500,000 to exempt even more businesses from the tax. This change will exempt nearly 16,000 businesses from the tax while reducing revenue to the state by only $3.4 million once it's fully phased in.

2. **Leave the tax rates and the $6 million threshold adopted last session in place.** While all businesses would be subject to the new $500,000 exemption, the 1.5% tax rate for the first $6 million in valuation and the 3% tax rate for any valuation above $6 million would remain in place. The 2013 Legislature increased the previous threshold from $3 million to $6 million, providing savings on the tax for businesses with high valuation.

3. We will request that the House Taxation Committee amend the bill to include **reimbursement of lost revenue to local governments, TIF districts, school districts, the Montana University System, and other local entities.** The higher $500,000 exemption is estimated to reduce revenues to these entities by $9.6 million. The Chamber believes that it is critical to reimburse these entities for lost revenue and to prevent a potential shift in the tax burden to Class 4 real property owners.

4. **Go into effect** January 1, 2016.

Example of Savings:

Montana Manufacturer:
$1.2 million in valuation with purchase of $240,000 in 2015 in machine tools for a total of $1.44 million in valuation. For the purposes of this example, we're assuming 600 mills.

Current law: $100,000 exemption; 1.5% tax on first $6 million in valuation;
3% tax on excess of $6 million
Valuation: $1.2 million + $240,000 = $1.44 million
Tax calculation: $1.44 million – $100,000 exemption = $1.340 million;
$1.340 million x 1.5% tax = $20,100 taxable value x .6 mill levy = **$12,060**

If HB 213 is enacted: $500,000 exemption; 1.5% tax on first $6 million in valuation; 3% tax on excess of $6 million
Valuation: Same as above
Tax calculation: $1.44 million – $500,000 exemption = $940,000;
$940,000 x 1.5% tax = $14,100 taxable value x .6 mill levy = **$8,460**

Total Savings 1st Year: $3,600